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ABSTRACT

This report covers the major issues that states will face during the implementation of the Family Support Act (FSA) and outlines the relevant FSA provisions. Additionally, the experiences of states that have implemented work-welfare programs with child care provisions are discussed. A general introduction and an overview of the FSA precede the report's six main chapters. Chapter 1 covers assessment of the demand for child care. Chapter 2 addresses ways to build the child care system in response to the demands created by work-welfare programs. Chapter 3 focuses on the primary factors involved in state child care costs: federal funding and state reimbursement levels. Chapter 4 outlines options for child care delivery systems and chapter 5 focuses on transitional child care--one of the focal points of welfare reform. Chapter 6 discusses quality in child care, addressing the coordination of early intervention services, such as Head Start, within state welfare reform efforts. A concluding section explores the expected impact of the FSA on state child care systems, Aid to Families with Dependent Children parents, and the children of participants. (RH)

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THE CHILD CARE GUARANTEE IN WELFARE REFORM

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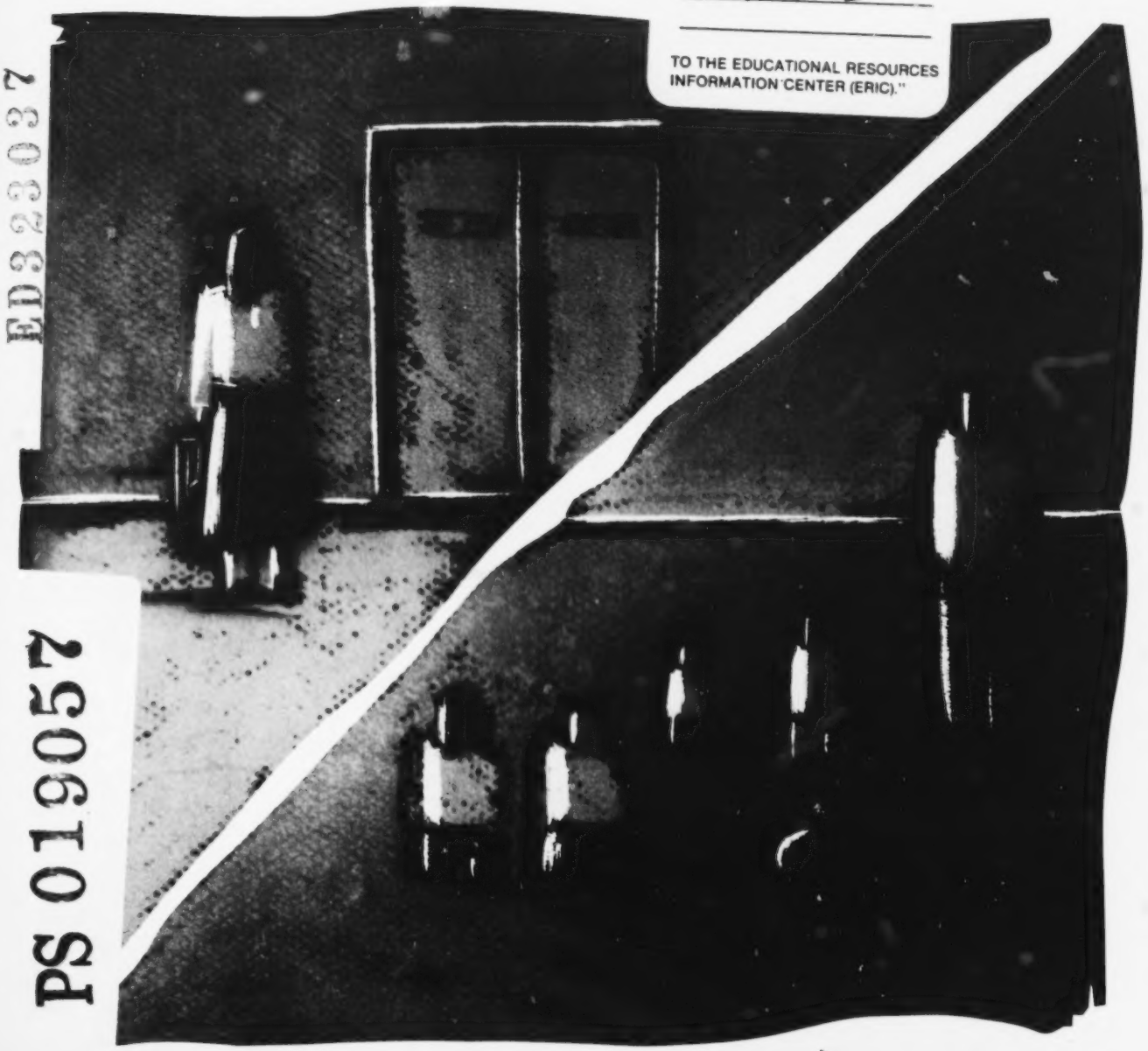

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THE CHILD CARE GUARANTEE

IN

WELFARE REFORM

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Introduction

The Family Support Act (FSA) of 1988 (P.L. 100-485) represents a shift in the country's thinking about child care and about its welfare system. Increasing Aid to Families with Dependent Children (AFDC) caseloads and the dramatic influx of working mothers into the labor force have led to a growing emphasis on the role of work in reducing long-term welfare dependency. The new federal legislation guarantees child care to parents participating in training and employment programs. The federal guarantee closely echoes the opinion of 88 percent of the public, who believe that unless poor, single mothers are provided with subsidized care, they will remain trapped in the welfare system.[1]

The act contains groundbreaking provisions concerning child care for welfare recipients to assist them in obtaining jobs. For the first time, child care is guaranteed to parents receiving AFDC who are involved in education, training, and employment activities. The federal initiative has drawn heavily from the experiences of states such as California, Massachusetts, and New Jersey with innovative work-welfare programs that include child care as an integral component.

The Family Support Act is designed to move welfare recipients into the workforce through the Job Opportunities and Basic Skills (JOBS) Training program. JOBS is an education, training, and employment program created to reduce the welfare rolls. Parents on AFDC who have children ages three years and older are required to participate in the program. Participation by AFDC parents in JOBS is required, however, only if the state guarantees child care.

Child care is an essential ingredient for requiring parents of young children to participate in JOBS, especially since most AFDC families are headed by single parents. For example, of the

11 million people receiving AFDC in 1985, almost 10 million people lived in families with only one parent--usually the mother.[2] In addition to the child care guarantee during JOBS participation, FSA provides AFDC parents with transitional child care benefits--one year of subsidized child care after the parent becomes employed. Since the average cost of child care is $3,000 annually per child and can consume half or more of an entry-level salary,[3] transitional care enables parents to maintain self-sufficiency.

For most states, FSA will have a profound impact on the child care system. Since the act provides only general guidelines, states can exercise wide discretion over the creation of their child care component. This report covers the major issues that states will face during the implementation process and outlines the relevant FSA provisions. Additionally, the experience of states that have implemented work-welfare programs with child care provisions is discussed.[4] A synopsis of each chapter is outlined below.

Chapter one covers the assessment of demand for child care. States must provide child care to AFDC mothers involved in welfare-to-work programs. Thus, accurately estimating the increase in the demand for child care is an important step toward ensuring an adequate supply. The assessment results of three states are discussed.

Chapter two addresses ways to build the child care system in response to the demands created by work-welfare programs. Currently, most state-subsidized child care systems reimburse only licensed providers. However, demand for these licensed slots may outpace supply as the FSA child care guarantee is implemented for increasing numbers of welfare recipients. States may need to explore other options in their efforts to increase the supply. This chapter reviews several state initiatives.

Chapter three focuses on the primary factors involved in state child care costs: federal funding and state reimbursement levels. The level of payment that states use to reimburse child care services will be a determining factor in state child care budgets and the overall JOBS program. Since the federal contribution is an open entitlement, states can garner considerable federal funds to upgrade reimbursement levels.

Chapter four outlines options for child care delivery systems. FSA gives states discretion in delivering services to AFDC mothers. The benefits and shortcomings of various options are explored.

Chapter five focuses on transitional child care -- one of the focal points of welfare reform. Prior to FSA, most AFDC parents who gained employment became solely responsible for the cost of child care shortly after leaving the welfare rolls. This and other newly assumed expenses, such as medical insurance, were often so overwhelming that parents were forced to rejoin the AFDC population. The Family Support Act addresses this problem by requiring states to provide child care for up to 12 months after the parent loses eligibility for AFDC benefits.

Chapter six discusses quality in child care. The main objective of FSA's child care guarantee is to enable AFDC parents to gain employment. To truly break the cycle of poverty, however, it is crucial that the needs of the children in care be considered. Apart from needing healthy and safe child care environments, many AFDC children would benefit from high-quality developmental services. This chapter addresses the coordination of early intervention services, such as Head Start, within state welfare reform efforts.

Overview of the Family Support Act

The Family Support Act of 1988 seeks to reduce poverty by changing the nature of the welfare system. One of the major enactments of this legislation is the creation of the Job Opportunities and Basic Skills Training program.

What Is JOBS? JOBS is designed to help welfare parents become self-sufficient by providing education, training, and employment services. In addition, supportive services such as child care are guaranteed to participants.

Who Must Participate? The Family Support Act mandates that AFDC parents with children age three and older must participate in JOBS or approved employment and training activities. Parents with children under six are normally required to participate for only 20 hours per week. However, parents under 20 years old without a high school diploma must participate full-time in educational activities. In addition, states may opt to require participation for parents of children age one and older.

Who Is Exempted? Some AFDC parents are not required to participate, including recipients who are:

(1) Ill, incapacitated, or of advanced age;

(2) The parents or relatives of a child under three years (or age one at state discretion) who are personally providing care for the child;

(3) Working 30 hours a week; or

(4) Under 16 or attending elementary, secondary, or vocational school full time.

Must All AFDC Parents Except Those Exempted Be Enrolled in JOBS? AFDC parents are required to participate to the extent that the JOBS program is available in their area and as state resources permit. (Volunteers are entitled to the same services accorded mandatory participants.)

FSA, however, specifies a phased-in implementation of the JOBS program with annual or biannual increases in participation rates (the minimum number of eligible AFDC recipients required to participate). These rates are as follows:

- 7 percent in 1990 and 1991;
- 11 percent in 1992 and 1993;
- 15 percent in 1994; and
- 20 percent in 1995.

Participants, as a group, must average 20 hours per week of education or training activity.

What Supportive Services Are Provided? FSA guarantees child care while the parent is participating in work-welfare programs. Additionally, child care (and health care coverage) must be provided for one year after the parent becomes employed. States can also provide transportation and work-related costs as supportive services.

How Is JOBS Funded? Under FSA, state costs are matched with federal funds. For JOBS programs, the federal match is capped (and thus is limited to federal appropriations). State costs for providing employment and training services are matched at the Medicaid matching rate or 60 percent, whichever is higher. This rate, known as the *enhanced* rate, ranges from 50 to 80 percent and is used for the salaries of JOBS personnel and all direct costs for providing

JOBS services. Administrative costs, such as program planning and monitoring, draw a 50 percent matching rate, called the *administrative* rate.

How Is Child Care Funded? Matching rates for child care are similar to those for JOBS programs. The direct provision of child care services is matched at the enhanced rate. Other costs, such as counseling participants on child care services, is matched at the administrative rate. Unlike JOBS funding, child care is a federal entitlement and is therefore *uncapped.*

When Must JOBS Be Implemented? A JOBS program must be implemented in each state by October 1990. By October 1992, programs must be available statewide.

I Assessing the Demand for Child Care

A sound assessment of the demand for child care will create a firm foundation on which to build a successful child care component. Determining the increase in the use of services precipitated by welfare reform will enable states to develop their child care resources and budgets effectively. Since little is known about the child care needs of the AFDC population, however, this type of assessment places states in relatively uncharted territory.[5] For guidance in the assessment process, states can look to the FSA provisions and those states with existing work-welfare programs.

FSA Provisions

An assessment of child care needs for work-welfare programs must take into account who is eligible for child care benefits and what proportion of the AFDC population must participate to meet federal requirements.

Eligibility for the Child Care Guarantee. States must make child care available to the following groups:

(1) Parents involved in the JOBS program;

(2) Participants in other state-approved education and training programs; and

(3) Working parents, if child care is deemed necessary for initial or continued employment.[6]

If child care is unavailable, parents cannot be compelled to participate in JOBS.

Participation Rates. In 1990, 7 percent of the eligible AFDC caseload must participate in JOBS. This requirement increases to 20 percent by 1995. Accompanying these quotas is the proviso that participants as a group must average 20 hours per week of education or training activities. In effect, states may have to enroll more than the required quotas, since hourly involvement in the program will vary among participants.

State Initiatives

Under JOBS, states are faced with the duty to provide care for:

- Infants (if the state has opted for mandatory participation of parents with children age one and older[7]);
- Preschoolers (three to five years old); and
- School-age children (six to 12 years old).

To meet this responsibility, policymakers need to know what the scope of effort will entail. The assessments performed in three states are studied in this chapter: California, New Jersey, and Minnesota.* In Minnesota, the demand for child care was underestimated, and program expansion ground to a halt. On the other hand, California and New Jersey overestimated the initial demand because they did not anticipate several key factors in early implementation of their work-welfare programs.

Table 1 outlines the differences between JOBS requirements and the state programs. Since these programs were implemented prior to FSA, some program characteristics do not coincide with FSA provisions. Such factors, however, will influence participation rates and assessment procedures.

*The work-welfare programs in these states are:
California -- Greater Avenues for Independence (GAIN);
New Jersey -- Realizing Economic Achievement (REACH); and
Minnesota -- Success Through Reaching Individual Development and Employment (STRIDE).

Table 1. Comparison of JOBS, GAIN, and REACH Program Characteristics

Program	Participation Rates	Participants	Program Implementation
JOBS	7% in 1990 increasing to 20% in 1995	Mandatory for AFDC parents with children 3+	Statewide by 1992
California GAIN	20%**	Mandatory for AFDC parents with children 6+	Statewide
New Jersey REACH	5.2%+	Mandatory for AFDC parents with children 2+	Statewide
Minnesota STRIDE	19.1%++	Voluntary	Statewide

* Within the required percentage of participants, there must be a weekly average of 20 hours of satisfactory participation.

** Represents number of mandatory participants who attended and participated in a GAIN activity. This does not conform to the federal 20-hour participation requirement, which at this date California is unable to track.[8]

+ Statewide participation rate for July 1989. This figure represents the number of nonexempt parents who participated (in accordance with FSA provisions) in REACH activities. Ten of New Jersey's 21 counties have implemented REACH for more than one year. For these counties, participation rates range from 8 1\2 to 24 percent.[9]

++ Represents number of participants who attended and participated in a STRIDE activity. This does not conform to the federal 20-hour participation requirement, which at this date Minnesota is unable to track.[10]

Child Care Assessment Results.[11] In the California and New Jersey programs, the initial projected demand for licensed child care services was overestimated. This overstatement resulted from several unanticipated factors, including:

- Participants' high use of informal child care arrangements;
- Participants' need for remedial education prior to participation in job training; and
- Slow program startup.

In both state programs, a significant proportion of participants uses informal care arrangements (care by relatives and friends). In GAIN, parents with children age six and older are required to participate. The state, however, also allows volunteers with younger children to enter the program. As of December 1987, 11 percent of the participants were volunteers.[12] Of the mandatory participants, 52 percent used child care by relatives and friends during the summer of 1988.[13]

The high usage of informal care by mandatory participants should be compared with the child care choices of GAIN volunteers. Of the voluntary GAIN participants, 48 percent took advantage of center-based care while only 25 percent used care by relatives and friends.[14] The appreciable difference between the child care choices of mandatory and voluntary participants suggests that while most parents with school-age children can use informal care, parents with young children choose more institutional arrangements.[15]

In the New Jersey REACH program, 43 percent of participants statewide make informal care arrangements. In Cape May and Salem counties, approximately 35 to 40 percent of the REACH participants use unlicensed care by relatives and friends, partly because licensed care is unavailable. In Cumberland County, 70 percent use informal care arrangements. The high figure in this county is attributed, in part, to the large percentage (40 percent) of Hispanic parents in REACH. Culturally, these parents are not accustomed to leaving their children in the care of strangers.[16]

Various reasons have been cited for the wide use of informal arrangements, including:

- Parents fear child abuse in child care centers and family day care homes run by strangers;

- By using informal care arrangements, parents are directing money into the homes of relatives and friends;
- Caseworkers often influence the decision to use this type of care. (This was a pronounced factor in the GAIN program);
- Other types of care are not accessible;
- Participants' erratic schedules preclude the use of other types of care;
- Parents do not understand the other child care options available; and
- Parents are more comfortable leaving their children in the care of people they know than with strangers.[17]

Another factor that minimized the demand for child care services in California was the need for remedial education. About 50 percent of GAIN registrants were referred to basic education programs.[18] Parents were in these programs for six to nine months before they could participate in a meaningful training activity. Since the educational programs occurred during school hours, enrollees did not need before- and after-school child care. Slow program startup and the consequent low participation rates in both GAIN and REACH also created a lesser initial demand for child care services than was estimated.

Although the initial child care assessment in REACH was generally overstated, one aspect of demand was overlooked in the New Jersey counties of Cape May, Cumberland, and Salem. School-age children need child care during vacations, such as the summer holidays. Since this need was not integrated into the assessment process, the child care agency was unprepared for the onslaught of children requiring all-day care during this period.

Unlike the REACH and GAIN programs, the Minnesota STRIDE program underestimated the demand for child care. During fiscal year 1988-89, between 5,000 and 8,000 AFDC parents were expected to participate. In fact, 11,500 signed up and are participating in the

program.[19] Additionally, another 3,000 families are on the waiting list for child care services that would enable them to take part in STRIDE.[20]

Lack of funding for child care services makes it impossible to enroll all parents who want to participate in the STRIDE program. Although $5.5 million is the projected amount for fiscal year 1990 (with an additional $7 million for transitional care), there are still insufficient funds.[21] Given ample funding, child care administrators project enough child care slots since between one-third to one-half of STRIDE participants use unlicensed care. This situation is attributed to parents' evening and irregular schedules that do not lend themselves to structured center-based care.[22]

Conclusion

In all three state programs, usage of informal care in work-welfare programs is high. Nevertheless, according to child care coordinators, as parents become more deeply involved in the welfare-to-work transition, their child care arrangements become more formal. In San Diego County, for example, participants make informal child care arrangements during short-term work-welfare components such as employability assessments and job search. For long-term programs such as education and training, however, licensed care is more often used. Moreover, of those receiving transitional care benefits in this county, 90 percent purchase licensed care.[23] This trend suggests that states can use informal care most appropriately to support JOBS program entrants, although states are not allowed to steer parents to this type of care. The unreliability of informal care in the long run, however, is a less practical option for parents involved in long-term work-welfare program activities or for those who gain employment. When single, female heads of households in the general population were asked in a national survey if most parents can find informal care arrangements and not use child care facilities, 68 percent of this group said no.[24]

Thus, states may have to perform short- and long-term assessments to determine the type and amount of slots required. For short-term participants, informal arrangements may be expedient. Long-term participants and those who gain employment will need more stable arrangements -- probably in the form of licensed slots. Since licensed care takes time and resources to develop, long-term planning will be necessary to meet the demand for this type of care.

The experience of these three states highlights the impact of several program parameters in the assessment process. For example, how long will it take to implement a program, and how many will it serve? In what component will most of the parents be participating, and how long will it take? What are the remedial education needs of the participants? Are the caseworkers adequately trained in child care issues? What are parents looking for in their child care arrangements?[25] A close examination of the participants' activities in the work-welfare program, the child care counseling the parents receive, and the needs of the families to be served are essential to successful assessment.

II Expanding Child Care Resources

The demand for child care could increase by as much as 10 percent when the Family Support Act is fully implemented.[26] States, however, had experienced shortages in affordable and accessible child care, especially for low-income families, before the onset of FSA. The child care guarantee, therefore, presents the additional challenge of providing sufficient slots for AFDC children whose parents are participating in JOBS or who require transitional care benefits.

FSA Provisions

Federal Funding. Despite the apparent need for building up the child care supply, federal matching funds cannot be used for resource development, i.e., expanding that supply. Regulations issued by the U.S. Department of Health and Human Services (DHHS) stipulate that federal matching funds are unavailable for "those activities designed to increase or to upgrade the overall capacity of the child care delivery system."[27] Specifically, federal funds cannot be used for:

- Constructing facilities;
- Training and recruiting providers;
- Providing liability insurance; and
- Offering technical assistance to providers who want to be licensed.

However, federal funds, at the administrative matching rate can be used for:

- Linking recipients with available child care services;
- Counseling participants about child care;

- Coordinating child care delivery systems;
- Training state agency staff on child care issues;
- Establishing local market rates;
- Establishing sliding fee scales; and
- Implementing payment or reimbursement systems.

State Initiatives

States have used several strategies to boost the supply of child care for work-welfare participants, including:

- Using payment arrangements that encourage providers to care for the children of participants;
- Using child care resource and referral agencies to recruit providers;
- Appropriating state funds for capital expansion; and
- Allowing unlicensed care.

With the exception of allowing unlicensed care, these initiatives require a commitment of considerable state funds. Additionally, states will have to shoulder the cost of recruitment efforts and the building and development of most of the child care infrastructure, since the federal government is not committing funds for resource development.

Using Supportive Payment Arrangements. Both the system and the rate used to reimburse providers can affect the supply of subsidized care. Providers frequently refuse to serve subsidized children because of low payment rates and unreliable payment structures. However, FSA gives states the latitude to address these problems by allowing for the implementation of various payment rates and mechanisms.

Rates. States can pay for child care at either the local market rate or the rate used to calculate the income disregard. Local market rates are the prices charged by providers in a particular area. The child care disregard, under FSA, is set at actual expenses up to $175 per month for preschoolers and $200 for infants and toddlers. (The *disregard* is an amount subtracted from a parent's income to determine eligibility for AFDC and to set the level of the AFDC grant.)

In many instances, the actual cost of care is substantially higher than the disregard payment rate. Thus, if a state uses the disregard rate, the pool of providers willing to serve AFDC children is curtailed sharply. To avoid this, states can pay for child care at the market rate. For example, New Jersey pays for child care at a statewide market rate that allows parents to "purchase" child care from approximately 60 percent of the providers. Thus, REACH pays $385 per month for infants and toddlers in full-time licensed care (in either centers or family day care homes) and $294 for preschoolers.[28]

The Washington Family Independence Program (FIP) pays 90 percent of the average local market rate. (FSA will pay only up to 75 percent of the local market rate. States choosing to pay above this rate must supplement costs without federal matching dollars. See chapter four for additional information.) The rates approved under FIP vary depending on the region. For toddlers, the approved monthly rates for center care range from $225 to $327, and for family day care from $181 to $282. For preschoolers, center care rates range from $198 to $280 per month, and for family day care from $170 to $191.[29]

Comparison of Disregard Versus Selected Market Rate Payments

A. For Infants and Toddlers

	Disregard	Washington	New Jersey
Centers	$200	$225-327	$385
Family Day	$200	$181-282	$385

B. For Preschoolers

	Disregard	Washington	New Jersey
Centers	$175	$198-280	$294
Family Day	$175	$170-191	$294

The disparity between the market rates in these two states and the child care disregard of $175 per month for preschoolers and $200 for infants is evident. The state market rates are substantially higher and as such support providers. While this implies an increase in the pool of providers, it also means higher state costs than if the income disregard were used.

Mechanisms. States can use various mechanisms to pay for care, including contracts, vouchers, or the disregard. Payments under contracts or vouchers can be either prospective or retrospective.

Contracts are the most supportive payment mechanisms for providers. Under this system, the state reimburses the provider directly for a certain number of slots, whether or not these slots are filled. This method ensures the provider a stable and reliable source of funds. Vouchers are also provider-supportive, but to a lesser extent than contracts. This mechanism, which usually takes the form of certificates representing subsidies, is issued to the parent who can

redeem it at the provider of choice. Although vouchers allow the state to pay the provider directly, they do not guarantee the provider a certain number of slots. The disregard is considered the least reliable source of payment since parents, not the state, are responsible for reimbursing the provider. Under the disregard, parents are reimbursed retrospectively by the state, which means that they must pay for child care upfront out of an already meager household budget.

There are some other provider-supportive measures for which federal matching funds are available. States can pay for child care services for up to two weeks prior to parents' entering approved education or training activities. This two-week period allows the parent and the child to adjust to child care arrangements before the parent enters into a JOBS activity. Additionally, states can pay for up to one month of child care during short breaks that occur in education and training components. In the absence of these interim payments, parents can lose their child care slots, which can result in shifting children through multiple arrangements within a given year. Such discontinuity is disruptive to both the child's development and the parent's employability process.

Using Resource and Referral Agencies. Child care resource and referral agencies (R&Rs) can be particularly helpful to work-welfare programs because they counsel parents on the types of child care services available. In addition, by maintaining comprehensive data bases on the cost, location, and transportation resources of local child care facilities, R&Rs can link parents and child care providers.[30] (These basic services are eligible for federal matching funds at the administrative rate.) Moreover, R&Rs can play a pivotal role in increasing the supply of family day care providers. For example, the growth of registered providers in three of Florida's counties has been phenomenal and is due in large part to the state-contracted R&R for that region. Over the past two years, the number of registered providers in Orange,

Osceola, and Seminole counties has increased from a mere 20 to 1,000.[31] R&Rs also offer training and support to avoid the high turnover associated with these providers.[32]

In California, for example, 15 of the 19 local resource and referral agencies under contract with the GAIN program provide recruitment and training of child care providers.[33] Their activities include contacting prospective providers with information, such as licensing procedures and marketing studies. In addition, these R&Rs often provide workshops on nutrition, health and safety, and GAIN policies. Some also provide various forms of technical assistance, such as how to establish toy-lending libraries.[34]

In San Francisco, the R&R affiliated with GAIN disseminates information about the program's child care component. A key service is the publication of the market rate payment, since providers often assume that payments for subsidized children are uncompetitive. This R&R also helps potential providers become licensed through informational materials as well as a prelicensing visit. The visit consists of an agency staff member examining the site prior to the formal inspection to ensure that the home conforms to licensing standards. Thus, providers can pass inspection the first time and avoid a lengthy wait for a second inspection.

The R&R also provides quarterly seminars on the business aspects of family day care to avoid the high turnover associated with family day care providers. For example, some of the turnover stems from providers' frustration over avoidable problems, such as miscommunications with parents. Therefore, R&R workshops cover topics such as establishing contracts with parents that include pickup times and the notice required when withdrawing a child.[35]

Child care resource and referral agencies are well-suited for the recruitment and support of child care providers. However, R&Rs cannot be effective in this effort unless they are funded

adequately. While the federal government matches costs for basic resource and referral activities, states must pay for any of the expansion efforts that R&Rs perform. The funding for recruitment purposes will fall on the states since the federal government is not contributing funds toward resource development under welfare reform.

Allocating State Funds for Capital Expansion. The investment of state funds in the child care system can be instrumental in the development of slots -- particularly center-based slots. In New Jersey, for example, state monies have been used to build the system's infrastructure and provide incentives for development. At the inception of REACH, funds were allocated to the counties for the creation of local work-welfare programs. For many counties, especially the large ones, the planning stages took longer than anticipated and funds remained unused. The state allocated $2 million of these funds to increase the number of center-based child care slots for REACH and former REACH participants.[36]

Of the $2 million, $1.5 million was allocated directly to the counties based on their AFDC caseloads. The monies were available in the form of capital improvement grants to purchase, lease, or repair child care centers. The remaining $500,000 is being used for matching grants to nonprofit child care agencies statewide. The state matches agency funds in proportion to the number of slots designated by the local agency for REACH participants. The more slots allocated to the children of work-welfare participants, the higher the state matching rate. For example, if all of the child care slots created are for REACH participants, the matching rate is 1:1; while at a 1:4 state/agency matching rate, only 25 percent of the slots have to be allocated to REACH participants. The funds are projected to create between 900 to 1,100 center-based slots.[37]

Allowing Unlicensed Child Care. Under FSA, states have the option of allowing the use of unlicensed care in welfare reform programs. On the other hand, states are also free to limit

reimbursement to regulated child care services only. If only regulated care is allowed, providing adequate child care slots for AFDC children may be particularly challenging. For example, according to the Wisconsin Child Care Improvement Project, the capacity of current licensed providers in the state is approximately 62,000 slots for children up to age 12; yet about 294,000 children up to age 10 need care.[38] Thus, 232,000 additional slots need to be developed to meet pre-FSA demand.[39]

The decision to use unlicensed care is often predicated on the unavailability of licensed care. The recruitment of licensed child care services can be a long-term process. The startup of a child care center can take as long as two to three years. On the other hand, while it takes licensed family day care providers only about 60 days to start up a business, their annual turnover rate is 50 percent.[40] To recruit and maintain a stable supply of regulated providers, states must be willing to fund recruitment efforts and pay for child care services at market prices.

Although it seems plausible to use unlicensed care in work-welfare programs, informal care has several built-in shortcomings, including:

- The tendency of informal care arrangements to be unreliable and break down in the long run;
- The risk of creating a two-tier child care system, with the lower tier consisting of unlicensed, lower quality services provided to the children of AFDC mothers; and
- The wisdom of using public funds to pay for potentially dangerous, unregulated care.

To protect children placed in unlicensed arrangements, some safeguards can be implemented. For example, the New Jersey REACH program provides for a one-time state inspection of unlicensed care given by relatives and friends of the AFDC parents to screen out unsuitable

child care environments. REACH allows these homes to offer care for two unrelated children or all of the sibling children of one REACH participant. After the homes are inspected and approved, providers are eligible to receive only 60 percent of the statewide maximum rate set for licensed or registered facilities. The reduced rates are seen as a way to encourage providers to become licensed.[41] However, REACH's attempts to assimilate these providers into the licensed child care community have met with modest success. One REACH administrator attributes this situation to the providers' seeing themselves as doing a favor for the REACH participants and not being interested in running a child care business.[42]

In California's GAIN program, two types of unlicensed care are permitted -- family day care homes that care for children of one other family and informal arrangements in which relatives and friends care for the children of the participant. Despite the high usage of this type of care (52 percent of the mandatory participants chose it), taking advantage of licensed care increases after informal arrangements have repeatedly fallen apart and participants enter into more long-term GAIN activities.[43]

Conclusion

The development of the child care system is imperative for most states if the demands created by welfare reform are to be met. With the exception of allowing unlicensed care, the initiatives discussed in this chapter require significant state funds. Although the implementation of unlicensed care services is relatively inexpensive, its suitability for work-welfare participants, particularly in the long run, is questionable.

The development of adequate child care resources is a state responsibility. While provider-supportive payment rates and mechanisms require considerable state funds, these initiatives are partially supported by federal matching funds. In contrast, using R&Rs and direct state efforts to recruit and develop providers are both efforts that rely entirely on state revenue.

III Financing Child Care Under Welfare Reform

Two factors will have a major effect on the state's child care costs:

- The federal contribution toward child care; and
- State reimbursement rates.

The amount states budget for the child care component of welfare reform will depend heavily upon the rate at which the state reimburses providers for child care services. Although costs will grow as JOBS programs mature and participation rates increase, the federal government will share a substantial burden of the expenses.

FSA Provisions

Capped Versus Uncapped Funding Streams. Under welfare reform, the federal funding streams for JOBS and for child care are independent of each other. While a ceiling has been imposed on JOBS funding, the federal entitlement for child care is open-ended or uncapped. Thus, while JOBS funding is limited by federal appropriations, child care federal matching funds are available for all eligible participants.

Federal Matching Rates. There are two federal matching rates under the child care funding stream (both of which are uncapped entitlements):

- State funds used to reimburse child care providers are matched at the Medicaid rate or 60 percent, whichever is higher. This matching level is also known as the "enhanced" rate. (As Table 2 shows, the Medicaid matching rates for FY 1990 range from 50 to 80 percent.); and

- State funds used for the administration of the child care program are matched at a 50 percent rate.

States, however, can elect to pay for certain administrative costs at the enhanced rate under the JOBS funding stream, although these funds are limited. These administrative costs include activities performed by JOBS caseworkers such as the assessment of participants' child care needs and referrals to providers.

Table 2. Medicaid Matching Rates (FY 1990)[44]

State	Federal Share	State	Federal Share
Alabama	73.21%	Montana	71.35%
Alaska	50.00	Nebraska	61.12
Arizona	60.99	Nevada	50.00
Arkansas	74.58	New Hampshire	50.00
California	50.00	New Jersey	50.00
Colorado	52.11	New Mexico	72.25
Connecticut	50.00	New York	50.00
Delaware	50.00	North Carolina	67.46
Dist. of Col.	50.00	North Dakota	50.00
Florida	54.70	Ohio	59.57
Georgia	62.09	Oklahoma	68.29
Hawaii	54.50	Oregon	62.95
Idaho	73.32	Pennsylvania	56.86
Illinois	50.00	Puerto Rico	75.00*
Indiana	63.76	Rhode Island	55.15
Iowa	62.52	South Carolina	73.07
Kansas	56.07	South Dakota	70.90
Kentucky	72.95	Tennessee	69.64
Louisiana	73.12	Texas	61.23
Maine	65.20	Utah	74.70
Maryland	50.00	Vermont	62.77
Massachusetts	50.00	Virginia	50.00
Michigan	54.54	Washington	53.88
Minnesota	52.74	West Virginia	76.61
Mississippi	80.18	Wisconsin	59.28
Missouri	59.18	Wyoming	65.95

* Funding falls under the JOBS funding stream and is, therefore, capped.

State Payment Rates. States are required to pay for the child care of AFDC parents in the process of gaining self-sufficiency. At a minimum, states must pay the lesser of:

(1) The child care disregard rate, which is $175 per month for a child over two years of age, and $200 for a child under two.

(2) The local market rate, which states can determine for various types of care. (A local rate can be applied either to political subdivisions or to other geographical areas that may more closely represent a local market area.) However, DHHS regulations place a constraint on the language of FSA by requiring that the states pay only at the 75th percentile of either providers or slots. (The methods of determining these two percentiles are discussed in the *State Payments to AFDC Parents* section of this chapter.)

Federal matching funds cannot be used for that portion of the payment that exceeds the 75th percentile of providers or slots. There is an exception, however. In local market areas in which there is only one or two providers, the rate can be set at the 100th percentile.

The Federal Contribution

While states must guarantee child care to JOBS participants, the federal government agrees to share at least half of the state's child care costs. The federal matching rate for child care expenditures varies from 50 to 80 percent. Consequently, every state dollar is matched by 50 to 80 cents depending on the applicable rate. Since federal funding for child care is uncapped, states have the potential to leverage significant federal dollars for the child care component.[45]

State Payments to AFDC Parents

Child care expenses can be reimbursed at either the income disregard rate or the market rate, depending on state objectives. For instance, if cost containment is a priority, the disregard

rate is the expedient option since market rates tend to be higher. Additionally, the infrastructure for the disregard payment system is already in place. On the other hand, if the state focus is on alleviating a shortage of child care providers or maximizing parental choice, market rates are the advisable option. Market rates ensure worthwhile payments and as such encourage providers to extend services to work-welfare participants. This option, in turn, gives parents increased child care choices.

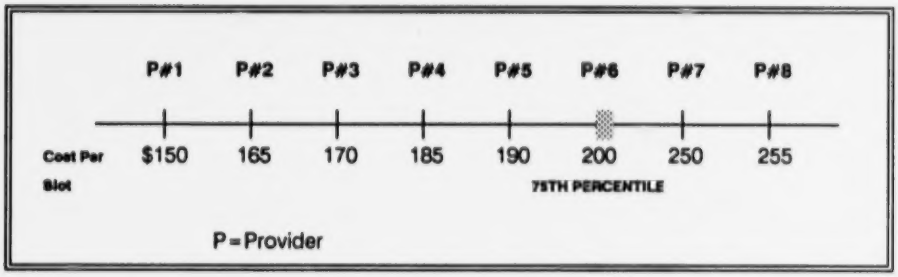
The Income Disregard. FSA not only increases the income disregard but also recognizes that care for infants and toddlers is more costly than care for preschoolers. Prior to FSA, the disregard for child care was $160 per month. The new disregard levels are $175 per month for children over two years and $200 for infants. Despite the increase, quality, or even adequate, child care services may still be inaccessible at these rates. FSA addresses the inadequacy of the disregard by giving states the option to reimburse for child care at market rates.

The Market Rate. While FSA allows states to pay at the local "going" rate, DHHS regulations limit the federal matching portion of market rate payments to the 75th percentile of either providers or slots.

- **To determine the 75th percentile of providers,** states must rank the rates of providers from the lowest to the highest. The 75th percentile (or the three-quarter mark) is the number separating the 75 percent of providers with the lowest rates from the 25 percent with the most expensive.[46]

  For example, suppose a representative sample of eight center-based providers charges the rates shown in Figure 1. These rates are ranked from the lowest to the highest. The sixth provider, with a rate of $200, is at the three-quarter mark of this listing. Thus, the local market rate is set at $200.

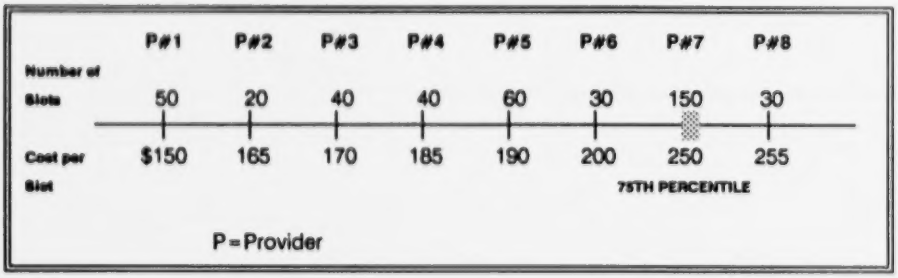
Figure 1. 75th Percentile of Providers



- **To determine the 75th percentile of slots,** states must first establish the overall number of slots available in the area. The market rate is then set so that participants have the "purchasing power" to access 75 percent of the slots.

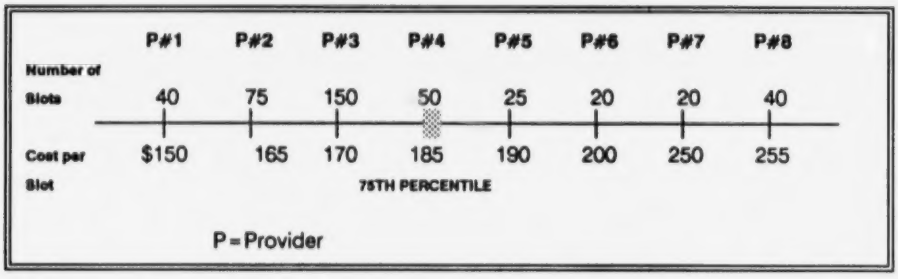
For example, suppose that with the same representative sample shown in Figure 1, the number of slots were distributed as shown in Figure 2. Within this sample, 420 slots are available. Seventy-five percent of 420 is 315 slots. For 315 slots to be accessible to parents, the rate must be set at the 7th provider's rate, or at $250.

Figure 2. 75th Percentile of Slots



If the same number of slots were distributed as shown in Figure 3, however, the market rate would be set at the fourth provider, or at $185, for access to 315 slots.

Figure 3. 75th Percentile of Slots



Using either of these methods, states must establish market rates for center-based care, family day care, and informal care arrangements. In addition, distinct rates can be set for:

- Care for infants, preschoolers, and school-age children; and
- Special care arrangements, such as care on the weekends and for sick children.

By using local market rates, even at the 75th percentile of providers or slots, states can allow for price differentials of various regions and of various types of care.

Income Disregard Versus Market Rate. The main shortcoming of the income disregard is that it often falls far short of the actual cost of care.[47] This characteristic can present a formidable barrier to parents seeking adequate, safe, and reliable care for their children. According to 1985 data, the average cost of child care is $3,000 annually.[48] This figure translates to $250 per month, compared with the $175 and $200 allowed under the disregard. Since child care is an important underpinning of the welfare reform effort, an ineffective child care system has serious implications for the success of the JOBS program.

The majority of the AFDC population lives in metropolitan areas, and the child care rates that these families face are often prohibitive. According to a survey conducted of 75 metropolitan areas in 1988,[49] the average for full-time child care costs is $286 per month. The variations between regions, however, are staggering. For example, child care costs in

Manhattan averaged $745 per month, and only through the implementation of the market rate could parents access this type of care.

The income disregard can also prevent parents from obtaining specialized types of care. Child care during the night-time and for chronically ill children is more expensive than traditional types of care. If AFDC parents are to have access to a variety of care arrangements, states must reimburse at competitive rates. For example, in New Jersey's REACH program, which has implemented market rates, case managers are authorized to make short-term payments to providers of special services. Such services can range from sick or emergency care to care in the evenings and on weekends when parents are working.[50] In addition, New Jersey has established a separate rate category for children with special needs, i.e., serious physical, emotional, mental, or cognitive conditions. For children between birth and school age, child care payments are authorized for a maximum of $387 per month.[51] The rate far exceeds the payments available under the disregard.

Conclusion

Despite substantial federal subsidies, states must institute child care reimbursements according to their own budgets and priorities. The income disregard has the advantage of being an existing system with established ceilings -- allowing states to contain costs. On the other hand, this reimbursement method can create inequity for parents in regions where the cost of child care outdistances the disregard rate. The market rate alleviates the problem of equity and also can increase the pool of providers. It may also leverage a significantly greater total of federal dollars for the state's child care system. It is a system, however, that in most states has yet to be implemented.

IV Service Delivery Systems

FSA gives states the flexibility to address the needs of AFDC parents in their transition to self-sufficiency. Under JOBS, a parent may have to participate in any one of the following program components: employability assessment, education, training, and job search prior to obtaining a full-time job. Typically, the assessment and job search components are short term and do not require full-time commitments. On the other hand, the educational and training components require an average weekly commitment of 20 hours. An effective child care system should have the versatility to meet the changing needs of parents who participate in the various work-welfare components or who are employed.

FSA Provisions

Although FSA cites various types of service delivery mechanisms, it gives states complete discretionary power over this decision. States can use the following service delivery systems:

- Providing care directly;
- Contracting directly with providers;
- Using vouchers;
- Using the earned income disregard or direct cash payment; the disregard can be used only for employed AFDC parents. Parents in education and training programs have no income to "disregard");
- Paying the caretaker relative in cash or with vouchers, prospectively or retrospectively;
- Arranging with volunteer groups for nonreimbursed care; and
- Employing any other method the state deems appropriate.

State Initiatives

States usually implement a combination of options, as Table 3 shows. In fact, according to DHHS regulations, states can use different delivery systems for the same child. For example, a child may need before- and after-school care. The care before school may be provided by a relative who is reimbursed through vouchers. After-school care, on the other hand, may be provided by a center under contract with the state. The implications of using some of the delivery options are explored in the following sections.

Providing Care Directly. For most states, this option may be impractical. To provide care directly, a state would have to develop an extensive child care infrastructure and bureaucracy. It would have to employ child caregivers and lease or construct facilities. Moreover, it would have to administer and maintain child care programs.

In most instances, these efforts would be counterproductive since a state would compete with private sector organizations already providing services. Providing care directly is also problematic because a state cannot use federal funds to construct or refurbish facilities. In some cases, however, the direct provision of care may be effective on a short-term basis, such as drop-in child care services while mothers are in orientation or employability assessment sessions.

Contracting Directly with Providers. A state can contract directly with providers to serve the children of work-welfare participants. The state pays the facility directly and is ensured a certain number of child care slots. In turn, the facility is guaranteed a certain amount of payment. Several disadvantages, however, are associated with direct contracting. First, the child care facility may become more accountable to the funding agency than to the parent. Second, if this method is used exclusively, the parent's ability to transfer the child is hindered

Table 3. Service Delivery Systems

State	Use Contracts	Pay Caretaker Relative in Advance with Cash/Voucher	Arrange Care with Other Agencies	Reimburse Caretaker Relative	Use Child Care Disregard
AK	*				*
AL	*		*	*	
AR	*	*		*	
AZ	*		*	*	*
CA	*	*	*	*	*
CO	*	*	*	*	*
CT	*	*		*	*
DC	*		*	*	*
DE	*			*	*
FL	*	*	*	*	
GA	*				
HI+					
IA	*			*	*
ID		*	*	*	*
IL	*	*			
IN	*	*	*		
KS	*				*
KY	*				
LA	*			*	
MA++	*				
MD	*		*		
ME	*	*	*		*
MI				*	*
MN					
MO	*		*		*
MS		*			
MT					*
NC					
ND		*		*	*
NE	*		*		*
NH	*	*		*	*
NJ	*	*		*	*
NM				*	*
NV	*		*	*	
NY	*	*	*	*	*
OH	*				*
OK	*				*
OR	*	*	*	*	*
PA		*		*	*
RI	*			*	*
SC	*		*		*
SD		*		*	*
TN	*		*		*
TX	*	*	*	*	
UT	*	*	*	*	*
VA	*				
VT		*	*		*
WA	*				
WI	*			*	*
WV	*				*
WY	*		*	*	*

\+ Not yet determined

\+ + Voucher payment system (but not in advance to caretaker relative)

Adapted from *State Implementation of the Job Opportunites and Basic Skills Program: Results of a Survey of State Human Service Administrators*, American Public Welfare Association (Washington, D.C.,1990), p. 8.

since the parent must wait for another contracted slot to become available.[52] Moreover, contracting directly can also result in the concentration of low-income children in certain facilities.

Some of the disadvantages of direct contracting are demonstrated by the Positive Employment and Community Help (PEACH) program in Georgia. In PEACH, direct contracts were used until July 1, 1989. Up to this time, the state contracted with licensed child care centers in some of its counties. According to a PEACH child care administrator, one of the bonuses of the contract system was the significant state influence over the day care programs. Because of the ongoing relationship with providers, the state could prescribe and monitor quality standards, such as staff/child ratios and developmental curricula. However, the system had some overriding inadequacies, such as the lack of parental choice over the type and location of care and the limited supply of child care slots open to work-welfare participants. Based on these factors, state policymakers chose to assimilate the PEACH child care component into the general state-subsidized child care system.[53] PEACH participants are prioritized over low-income, working families.[54]

Using Vouchers. This payment mechanism is responsive to individual needs and work-welfare program changes. Vouchers often take the form of certificates representing state subsidies, which parents can use to purchase child care at the desired site. Vouchers allow parents to choose a variety of care arrangements, depending on their changing needs and those of their children. In turn, this mechanism tends to distribute subsidized children among various programs in the region. However, a study on voucher use showed that this method works best when the payment rates reflect the actual market value of care and where child care openings are available. If these conditions are not present, a large influx of vouchers in a specific geographical area could inflate the price of care. A high demand for child care without a corresponding supply also will cause the price of services to rise.[55]

The Massachusetts Employment and Training (ET) Choices program uses a voucher system specifically established to provide child care for ET participants. The voucher program was created to address the unavailability of child care slots under the state-subsidized contract system. Under the contract system, ET participants competed with other low-income families for a limited number of slots.[56] Vouchers, on the other hand, allow parents to purchase care at the site of choice and thus expand the pool of potential providers.

Using Income Disregards. As discussed in chapter two, a *disregard* is an amount of money subtracted from a welfare recipient's income when calculating eligibility for the AFDC grant. In states using the child care income disregard, parents are reimbursed retroactively through their welfare checks, sometimes waiting up to three months for payment. FSA raised the income disregard from $160 per month to $175 for preschoolers and $200 for infants.

Both Kentucky and North Dakota use the income disregard. In Kentucky, the $160 disregard is adequate for rural areas but is insufficient for purchasing child care services in urban areas. Although market rates have not been determined, anecdotal information suggests that urban day care centers in Kentucky charge about $50 per week, or $216 per month. To accommodate the low-income population, many day care centers use sliding fee scales. Although the current disregard provided by FSA is expected to make child care services more accessible, it still will fall short for many parents.[57] In North Dakota, the $160 stipend for child care is also insufficient to purchase child care in urban areas. The estimated cost of child care in the cities ranges from $180 to $225 per month.[58]

Conclusion

FSA allows states to use any or all types of service delivery methods. Thus, states have the opportunity to design a system that will serve their own unique circumstances, populations, and budgets.

V Transitional Child Care

Transitional child care is a crucial piece of FSA. Prior to the act, AFDC parents became ineligible for child care and other supportive benefits soon after obtaining employment. For these parents, the ensuing child care expenditures and the costs of other supportive services were so debilitating that they were often forced to return to the welfare rolls. Federal policymakers recognized that some states were successful in breaking this cycle by continuing to provide child care and other supportive services after parents become employed. FSA now requires all states to provide up to 12 months of transitional child care.

FSA Provisions

Eligibility. As of April 1, 1990, up to 12 months of transitional care must be guaranteed to working parents who no longer qualify for AFDC based on their earnings. Eligibility for transitional care benefits is also subject to the following provisions:

- Parents require child care to participate in the workforce;
- Parents cannot terminate employment without good cause; and
- Parents must have been eligible for AFDC in at least three of the preceding six months.

Sliding Fee Scale. States must establish sliding fee scales based on a family's ability to pay. Additionally, DHHS regulations stipulate that all parents pay part of the cost of care, regardless of their incomes.

Other Requirements. Except for the family's financial participation, transitional care services are subject to the same FSA provisions as the child care services provided for JOBS participants, such as federal matching rates and quality standards.

State Initiatives

Before the passage of FSA, several states had already initiated the provision of child care benefits to newly employed AFDC parents. The duration of such benefits, however, varied -- ranging from a one-time payment to the provider to tide the parent over until the first paycheck was received to subsidies over an indefinite time period based on a sliding fee scale.[59]

These state initiatives were well-justified. For low-income families, the percentage of income allocated to child care is about 23 percent, equal to that spent on housing and food.[60] Some experts estimate that the percentage of income devoted to child care by low-income families is substantially higher. In Iowa, for example, a single mother with one preschooler working full-time at minimum wage spends about 40 percent of her earnings on child care. This parent needs to earn more than $7 per hour at a full-time job to be able to pay for services, including medical insurance and child care costs, provided under the previous AFDC benefits.[61] In contrast, middle-income families making more than $40,000 annually spend only 5 percent of their income for child care.[62]

Duration of Transitional Benefits. In both the Massachusetts and New Jersey work-welfare programs, the provision of one year of transitional child care benefits predates the federal mandate. Certain rules establishing the duration of these benefits have a very different focus, however. The Massachusetts program offers support indefinitely and is aimed at preventing the abrupt loss of AFDC benefits that often forces families to return to the public assistance

rolls. In contrast, New Jersey's REACH policy tries to prevent parents from deliberately losing their jobs to requalify for AFDC benefits and offers more limited assistance.

Graduates of Massachusetts' ET program receive a voucher subsidy based on a sliding fee scale during the 12 months after starting employment. During this period, ET attempts to transfer the children into the state-subsidized child care system. If a subsidized slot is unavailable at the end of the 12-month period, the participant continues to receive the voucher subsidy until a slot opens. Once in subsidized care, children remain eligible until the family income rises above 115 percent of the state's median income. For example, a family of two or three loses eligibility at $29,520.[63]

In New Jersey's REACH program, the duration of transitional benefits is more restrictive, extending child care benefits for only 52 consecutive weeks. Therefore, if an employed participant loses employment and returns to the welfare rolls within the one-year post-employment period, transitional child care payments will continue only for the remaining balance of the 52 weeks.[64] This system was implemented to discourage people from losing their jobs to regain transitional benefits indefinitely.[65]

Sliding Fee Scale. Under FSA, all parents receiving transitional care benefits must contribute to the cost of their child care. This mandatory copayment is based on a sliding fee scale or the family's ability to pay. Several states have implemented sliding fee scales in their work-welfare programs, including Massachusetts and Washington.

Massachusetts' ET program uses a sliding fee scale throughout its child care program. Parents are required to copay during participation in the educational and training program as well as after gaining employment. Payment starts at 40 cents daily. The copayment requirement is seen as a way of empowering parents and validating their input in their

children's care arrangements. (Copayment prior to employment may have to be discontinued because it is unclear whether this complies with the FSA child care guarantee.) Using the ET program scale, a single mother with two children who earns $1,000 per month will pay $55.90 per month for child care.

In Washington's Family Independence Program, parents pay for transitional care based on a formula. The cost to the parent cannot exceed 25 percent of the cost of care or 25 percent of the amount by which the family's income exceeds 135 percent of the bench mark, whichever is less. The *bench mark* is the eligibility cutoff for public assistance and is based on family size. (For example, the bench mark for a family of three is $700 per month.) Under this sliding fee scale, a single mother with two children who earns $1,000 per month, and whose child care costs are $400, will pay $65.75 per month for child care.[66]

Budgeting for Transitional Services. Despite parental contributions, transitional care will demand an extensive portion of the child care budget. In Minnesota's STRIDE program, for example, 41.5 percent of the $12.5 million state budget for child care will be used for transitional care in fiscal year 1990. This percentage is projected to drop in 1991 to approximately 29.8 percent of the total child care appropriation because of increased federal reimbursement.[67]

Conclusion

By providing transitional child care, states can liberate low-income families from the cycle of poverty. State costs for this type of care, however, will be a significant portion of the child care budget for work-welfare programs, despite the federal cost-sharing and parental copayment provisions.

VI Quality in Child Care

Even though child care is an acknowledged cornerstone of welfare reform, FSA places only minimal emphasis on the quality of these services. Although certain minimum provisions have been mandated to protect the well-being of children, most quality issues will be determined by the states. Despite a wide range of quality determinants, two primary issues emerge for state consideration:

- *Licensing.* Licensing is designed to create minimum standards to protect children in day care from harm.[68]
- *Early Intervention.* Children of welfare mothers are often at risk of school failure, teenage pregnancy, welfare dependence, and delinquency. Early intervention, through quality preschool programs, can help children avoid some of these outcomes.[69] By coordinating preschool programs with the child care component of welfare reform, states have a unique opportunity to target and provide early intervention services to at-risk children effectively.[70]

FSA Provisions

Standards. To be eligible for federal matching funds, child care services must meet applicable standards of state and local law. Therefore, care exempted from licensing in some states, such as unregulated care in church-based facilities, family day care homes, in-home care, and care on Indian reservations, is permissible. All child care centers, however, must meet basic health and safety requirements, even if they are otherwise unregulated. Parents must have access to all facilities. For family day care, states do not have to develop new standards, but they must endeavor to develop guidelines.

Coordination with Early Childhood Services. As far as possible, child care services provided under FSA are to be coordinated in each state with existing early childhood programs, including Head Start and preschool programs financed by Chapter One funds.[71] Additionally, coordination should involve preschool programs for handicapped children.

Issues for the States

Licensed Versus Unlicensed Care. States have the option of allowing unregulated child care in their work-welfare programs to increase the supply of slots and accommodate parental choice for care by relatives and friends. Lack of standards, however, can be detrimental to the quality of care. For example, in some work-welfare programs, the standards for unlicensed care merely require that providers be 18 years old or exclude only providers involved in child abuse cases.[72] Such minimal standards leave children vulnerable to highly unsuitable placements.

FSA does not promote uniform regulation of facilities. Although the act specifies that center-based care must adhere to basic health and safety regulations, no similar requirements exist for family day care homes. Nationally, in 1985, 22 percent of preschool children were cared for in family day care homes.[73] If this percentage is mirrored in the AFDC population, many children could be cared for in homes without basic health and safety precautions funded at the taxpayer's expense.[74]

The absence of licensing requirements for work-welfare child care programs contrasts sharply with the requirements for other federally and state-subsidized child care programs. For example, in many states, child care programs receiving Title XX Social Services Block Grant (SSBG) subsidies can use only licensed services. By allowing unregulated care for JOBS

participants, these states risk creating and supporting a two-tier child care system with children of AFDC parents receiving lower quality services.

Early Intervention Using Preschool Services. Early intervention is designed to break the cycle of poverty for at-risk children. One of the best known, well-documented early intervention studies is the Perry Preschool Project. Cost/benefit analyses show that for every one dollar spent on high-quality preschool programs, three dollars of the taxpayers' money is saved on special education, crime, and welfare costs.[75] The project followed the lives of poor, inner-city three- and four-year-olds, some of whom attended the Perry Preschool and some of whom did not. When these children reached age 19, a comparison of achievements of the two groups showed that those that attended the preschool were more successful than their control group counterparts.[76]

States recognize the effectiveness of quality early childhood experiences for at-risk children. Twenty states fund prekindergarten programs specifically targeted for at-risk children.[77] Eight states supplement Head Start programs with state funds.[78] In part, states have targeted these programs for disadvantaged children because studies show that these youngsters benefit the most from early intervention programs. Children of AFDC recipients are clearly within the at-risk population.

FSA provides an opportunity to states to reach this population of children while at the same time supporting their parents' transition to self-sufficiency. By combining child care services under welfare reform with early intervention strategies for at-risk children, states can provide full day care for youngsters whose parents are in job training and employment *and* can improve the lifetime outcomes for at-risk children. Additionally, states can leverage federal funds with that portion of the nearly $225.6 million[79] states invest in preschools for children whose parents are in JOBS training programs.

Coordination is especially important since preschool programs are usually half day, and many work-welfare participants need care arrangements that are more flexible or are full-day programs. Quality early childhood programs, however, are expensive, with the average annual cost being $4,000 per child.[80]

To defray costs, states can coordinate child care services with federally funded programs such as Head Start. Head Start has been effective in early intervention for at-risk three- and four-year-olds. The program provides comprehensive services to low-income children, including early childhood education, health, and nutrition. Studies have shown that children who attend Head Start programs are less likely to repeat grades or be assigned to special education classes.[81] Such coordination may be a logical step, since 47 percent of Head Start parents are AFDC recipients.[82]

Several issues should be considered in the collaboration efforts between the child care and Head Start communities:

- Head Start programs usually run for three to four hours per day, nine months out of the year. Thus, coordination must involve either shared space or the transportation of children between sites.
- Head Start programs serve only three- and four-year-olds. If the child care component is at the Head Start site, the eligibility of participating preschoolers' siblings for onsite care is an issue to consider.
- Head Start and the child care component of work-welfare programs are accountable to different fiscal entities -- one federal- and the other state-driven. Each of these departments has different and perhaps conflicting regulations that will have to be resolved.

Despite possible barriers, the Head Start community supports coordination efforts because many of the Head Start families will be required to participate in work-welfare programs. If coordinated programs are unavailable, many work-welfare participants with children in Head Start may be forced to withdraw their children and place them in more flexible child care arrangements.

According to a Head Start spokesperson, if the coordinated program is on the Head Start grantee site, integration could prove to be very economical in the long run for states. The major cost to a state would be that of hiring hands-on child care staff, since the space and supervisory functions could be paid for by Head Start.[83]

Several federal grants are in the process of being issued to create coordinated Head Start demonstration programs in response to FSA. One such initiative involves using family day care homes to care for the children of work-welfare participants and transporting the three- and four-year-olds in these homes to and from Head Start services. Head Start will be responsible for training the child care providers, and the state will pay these providers for their child care services.[84]

Another option that can be explored is the provision of education and training components for parents at the Head Start site. For example, some Head Start grantees in New York City are providing General Education Degree (GED) or literacy services for parents in tandem with early childhood programs for their children.[85]

Even if states choose not to coordinate with prekindergarten or Head Start programs, states have the option of providing quality child care programs that include low child/staff ratios, small class sizes, teachers trained in child development, and developmentally appropriate curricula that will offer enriching experiences for these disadvantaged children.

Conclusion

FSA places little emphasis on the type of child care services provided under welfare reform. Thus, the quality of child care is an issue that can easily be overlooked. Comprehensive efforts to end welfare dependency, however, should focus not only on the needs of the parents but also on the well-being of the future generation. Coordination between state education and welfare departments as well as the inclusion of Head Start in the development of child care services can promote high-quality programs for AFDC children. Safe environments that foster healthy child development for at-risk children can go a long way toward breaking the cycle of poverty.

Conclusion:
The Legislative Response to FSA

There are many questions to be answered about welfare reform and its impact on the states. In particular, will FSA work? Will it change the lives of AFDC recipients by providing them with access to well-paying jobs? It will probably be years before these questions can be answered.

In the meantime, state policymakers can examine some of the pieces of the program to predict what impact FSA will have on state child care systems, AFDC parents, and the children of participants.

Impact on the Child Care System. Developing a comprehensive statewide child care system is critical to the successful implementation of FSA. To develop such a system, policymakers must have access to basic information about child care resources -- such as the number and types of slots available, the rates at which these slots can be purchased, and where these slots are located. From this vantage, states can devise strategies to improve the system. For example, if there is inadequate infant care, states may choose to create pilot projects to train infant providers. With concrete information about child care rates, policymakers can determine the feasibility of using the income disregard versus market rates. Furthermore, states can ensure that payment rates used for other subsidized care such as Title XX are equitable to FSA rates, so that low-income families are not displaced by higher paying work-welfare parents.

Since transportation to and from the child care arrangement can often be problematic for parents, the accessibility of providers should be incorporated into the planning process. Child care arrangements need to be convenient to the parent's home, training site, or job. Through legislation, policymakers can address zoning or other barriers that prevent the development of child care in areas where the need is underserved.

Improving the child care system will require financial investment. To maximize the leverage of federal funds, states should coordinate existing child care programs with FSA efforts.

Impact on the Parents. Connecting work-welfare parents with quality child care services is essential. Since many parents enrolled in JOBS will be unaccustomed to using child care, counseling these parents on the elements of quality is necessary. Additionally, parents must be provided information on where these child care resources are. A streamlined process -- such as colocation of counseling and referral services -- that avoids shuffling parents to different agencies can ease parents' transition into the child care system.

Providing a variety of child care options lets parents choose arrangements with which they are comfortable, thus allowing them to concentrate on their training or job obligations. To have choice, however, parents must have adequate resources, such as viable reimbursement rates. Moreover, parents should be able to choose among providers who reflect similar socialization and child-rearing practices.

Impact on the Children. The quality of child care not only contributes to the productivity of the parent but also affects the development of the child. Growing up in poverty puts children at risk of inadequate health care, poor nutrition, school failure, and subsequent welfare dependency. Legislators, however, can counteract some of these outcomes by creating measures that address the health, safety, and well-being of the children in JOBS child care

programs. For example, all programs should be subject to basic safety requirements, such as the covering of electrical outlets in areas where young children will be playing. Health precautions, such as immunization of children, should be taken to prevent the spread of diseases. Furthermore, providers should have a base-level knowledge of nutrition and be encouraged to apply for funds provided under the federal child care food program.[86]

Research shows that high-quality early childhood programs significantly benefit economically disadvantaged children. Developmentally appropriate programs that emphasize the child's social, emotional, and intellectual development contribute to higher levels of success in school as well as higher vocational aspirations. Thus, through the provision of a high-quality child care component, legislators can make JOBS a program that not only helps parents become self-sufficient but also enables their children to become productive members of the future workforce.

The states' ability to tailor work-welfare programs grants policymakers key roles in the development of the complementary child care system. Through leadership and vision, legislators can create high-quality child care programs that support families in the process of gaining self-sufficiency.

Notes

[1] *Family Survey II: Child Care,* Survey conducted by Louis Harris and Associates, Inc. (New York, N.Y., April 1989), p. 22. Sponsored by the Philip Morris Companies.

[2] U.S. General Accounting Office, *Work and Welfare: Current AFDC Work Programs and Implications for Federal Policy* (Washington, D.C., January 1987), p. 19.

[3] Marcia Henry, "Family Support Act 'Guarantees' Child Care; DHHS Calls Guarantee 'Conditional,'" *Youth Law News* (May-June 1989): 7.

[4] Many of the provisions in the Family Support Act are based on the experience of states with existing work-welfare programs.

[5] In 1987, for example, fewer than 6 percent of AFDC mothers worked either part- or full-time. House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, 101st Cong., 1st sess., 15 March 1989, Committee Print, 563.

[6] If the parent is employed full-time, the care is considered transitional. While this chapter deals with child care in general, chapter five discusses issues specific to transitional care.

[7] One of the main factors that will determine the demand for infant care will be how broadly states interpret FSA education requirements for teen parents, who typically have very young children.

[8] Bruce Wagstaff, GAIN Operations Manager, GAIN Oversight Committee, California State Legislature, January 1990: telephone conversation.

[9] Janet Rosenzweig, Project Specialist, Office of Evaluation and Analysis, New Jersey Department of Human Services, October 1989: telephone conversation.

[10] Karen Wagner, Supervisor for the Work and Training Unit, Minnesota Department of Human Services, January 1990: telephone conversation.

[11] *Methods of Assessment*: In the California GAIN program, participation is required of parents with children ages six and older. The needs assessment for this program was based on the assumption that most participants, whether mandatory or voluntary, would require child care services. A high demand for formal (licensed) care arrangements was expected.

Since the New Jersey REACH program is county-administered, counties designated lead child care agencies to coordinate the child care component of the work-welfare program. In the mostly rural tri-county area of Cape May, Cumberland, and Salem, the lead agency for the region performed the needs assessment using the following formula:

(1) From the average monthly AFDC caseload for each county, the number of exempt parents was subtracted.
(2) The difference was then multiplied by the average number of children per AFDC recipient (1.5 in all counties).

This calculation was used as the basis for developing additional slots. Emphasis was placed on creating licensed or registered services, of which an acute shortage was anticipated.

[11] In Minnesota, the STRIDE program is voluntary with the exception of a few mandated participants, including AFDC parents who are 19 and under without a GED. Therefore, an assessment of demand was based on how many AFDC parents were expected to participate.

[12] Karin Martinson and James Riccio, *GAIN: Child Care in a Welfare Employment Initiative* (New York, N.Y.: Manpower Development Research Corporation, May 1989), p. ix.

[13] During the school year, this percentage fell to 17.3 percent since most of the parents' activity during this period occurred while the children were at school.

[14] Martinson and Riccio, *GAIN: Child Care*, p. 38.

[15] Despite being a small proportion of the overall GAIN population, many of these volunteers will become mandatory participants under FSA -- under the provision requiring parents with children three and older to participate.

[16] Herbert Dimaio, Deputy Director of Tri-County Community Action (the lead child care agency serving Cape May, Cumberland, and Salem counties in New Jersey), September 1989: telephone conversation.

[17] Patty Siegel, Director, California Child Care Resource and Referral Network, San Francisco, California, July 1989: telephone conversation.

[18] Bruce Wagstaff, December 1989: telephone conversation.

[19] Michael Sirovy, Income Maintenance Consultant, Minnesota Department of Human Services, January 1990: telephone conversation.

[20] Vicki Kunnerth, Director of the Child Care Fund, Minnesota Department of Human Services, January 1990: telephone conversation.

[21] Laura Kadwell, Senior Program Associate, Children's Defense Fund, Minneapolis, Minnesota, January 1990: telephone conversation.

[22] Vicki Kunnerth, January 1990: telephone conversation.

[23] Madeleine Vaughn, GAIN Program Director for Child Care at the YMCA Childcare Resource Service, San Diego, California, September 1989: telephone conversation.

[24] *Family Survey II*, p. 24.

[25] The age distribution of AFDC children and the caseload projections are also factors used by the states. The use of these statistics, however, is not widely discussed in this report.

[26] Rebecca Maynard, Economist and Vice President of Mathematica Policy Research, Inc. Quoted from *The Child Care Market: Supply, Demand, Price and Expenditures*, p. iii. Family Impact Seminar, Washington D.C., January 13, 1989.

[27] Department of Health and Human Services, Family Support Administration, "Aid to Families with Dependent Children; Job Opportunities and Basic Skills Training Program and Child Care and Supportive Services; Final Rule," *Federal Register* 54, no. 197 (October 13, 1989): 42231.

[28] New Jersey Department of Human Services, "REACH Policy Planning Update," #20 (August 1988), p. 3.

[29] Washington Department of Social and Human Services, "Day Care Provider Survey: Children in Full-Time Care (25+ hours per week)," (n.p.: Office of Research and Data Analysis, n.d.).

[30] Mary Ellen Burningham, GAIN Child Care Program Manager, 4-C, Santa Clara, California, October 1989: telephone conversation.

[31] Phoebe Carpenter, Executive Vice President of Community Coordinated Child Care and Resource and Referral for Central Florida, Inc., Orlando, Florida, January 1990: telephone conversation.

[32] The turnover of family day care providers is 50 percent nationally.

[33] Berkeley Planning Associates, *Implementation of Greater Avenues for Independence (GAIN) by Child Care Resource and Referral Agencies: Analyses of the 1988 Agency Survey*. A report to the California Child Care Resource and Referral Network, January 16, 1989, Table 2B.

[34] Ibid., p. 10.

[35] Gwen Tillman, GAIN Program Manager, Children's Council/Child Care Switchboard of San Francisco, August 1989: telephone conversation.

[36] Terry Castro, Supervisor of Community-Based Services, New Jersey Department of Human Services, July 1989: telephone conversation.

[37] Diane Schonyers, REACH Child Care Policy Coordinator, New Jersey Department of Human Services, September 1989: telephone conversation.

[38] Welfare Reform in Wisconsin Creates Unmet Daycare Demand, *The National Report on Work & Family* (Washington, D.C.: Buraff Publications, December 15, 1988), p. 5.

[39] Wendy Hinrichs-Sanders, Project Director, Wisconsin Child Care Improvement Project, February 1990: telephone conversation.

[40] Kay Hollestelle, Executive Director of the Children's Foundation, Washington, D.C., July 1989: telephone conversation.

[41] Terry Castro, July 1989: telephone conversation.

[42] Faith Rogers, Executive Director of 4-C (the lead child care agency for REACH in Union County, N.J.), August 1989: telephone conversation.

[43] Heidi Strassburger, Staff Attorney, Children's Law Center, San Francisco, California. Testimony before the Joint Oversight Committee on GAIN Implementation, February 2, 1989, p. 6.

[44] U.S. Department of Health and Human Services, December 1989.

[45] JOBS supersedes the Work Incentive (WIN) program. WIN requires able-bodied AFDC recipients, except mothers with children under six, to register for work or job training. While the program offers a 90 percent federal matching rate for state child care expenditures, the provision of child care is minimal. This is due, in part, to the WIN structure wherein both the child care and job training components are competing for the same limited resources. Since WIN has generally prioritized job placement over the provision of comprehensive programs that include training and supportive services, child care has received a backseat role. Christine E. Hayes, *Welfare to Wages? Women in the WIN Program. Wider Opportunities for Women* (Washington D.C., 1984), pp. 3 and 5.

[46] *Federal Register* 54, no. 197 (October 13, 1989): 42228.

[47] According to Gwen Morgan, Senior Consultant on Day Care Policies for Work/Family Directions, the income disregard can purchase only good part-time or bad full-time custodial care. *Developmental care*, or care that focuses on the cognitive and physical development of the child, is inaccessible at the disregard level.

[48] M. Therese Gnezda and Shelley L. Smith, *Child Care and Early Childhood Education Policy: A Legislator's Guide* (Denver, Colo.: National Conference of State Legislatures, March 1989), p. 11.

[49] "Runzheimer Analyzes Daycare Costs Nationwide," Runzheimer News Release, April 17, 1989.

[50] New Jersey Department of Human Services, "REACH Policy and Planning Update," #18 (July 1988), p. 1.

[51] New Jersey Department of Human Services, "REACH Policy and Planning Update," #20 (August 1988), p. 3.

[52] Jim Nicholie, Director of Child Care, Minnesota Department of Human Services, September 1989: telephone conversation.

[53] The general state-subsidized system uses purchase of services agreements. Within this structure, the client decides on the child care arrangement desired and the case manager arranges a service agreement with that provider. This payment mechanism differs from vouchers because the client can use the service agreement only at the agreed-upon site.

[54] Delores Woodward, Unit Chief, Family Support Unit, Georgia Department of Human Resources, January 1990: telephone conversation.

[55] S. Stoddard, "Vouchers for Child Care: The Santa Clara Child Care Pilot Study." In P. K. Robins and S. Weiner (eds.), *Child Care and Public Policy*, pp. 133-155. In *Child Care: Today's Challenge for Tomorrow*, (Trenton, N.J.: New Jersey Child Care Advisory Council, January 1988), p. 13.

[56] U.S. General Accounting Office, *Work and Welfare: Current AFDC Work Programs and Implications for Federal Policy*, Washington, D.C., January 1987, p. 84.

[57] Ann Hager, Branch Manager of Policy, Analysis and Planning, Kentucky Department of Social Services, July 1989: telephone conversation.

[58] Paul Ronnigen, Administrator of Early Childhood Services, North Dakota Department of Human Services, July 1989: telephone conversation.

[59] *An Evaluability Assessment of Child Care Options for Work-Welfare Programs – Final Report* (Falls Church, Va.: Maximus, Inc., April 1988), p. II-13. (Prepared for the Assistant Secretary for Planning and Evaluation, Office of Social Services Policy.)

[60] "Who's Minding the Children?", Work & Family Fact Sheet, Washington, D.C., n.d., p. 1.

[61] *Welfare Reform in Iowa: Options and Opportunities* (Iowa City, Iowa: Public Policy Center at the University of Iowa, January 1989), p. 48.

[62] *The Child Caretaker: Supply, Demand, Price and Expenditures* (Washington D.C.: Family Impact Seminar, 1989), p. 6.

[63] Massachusetts Department of Social Services Day Care Services, Fact Sheet, n.d.

[64] New Jersey Department of Human Services, "REACH Policy and Planning Update," #20 (August 1988), p. 2.

[65] Terry Castro, August 1989: telephone conversation.

[66] Dori Shoji, Social and Health Program Coordinator, Washington Family Independence Program, January 1989: telephone conversation.

[67] Laura Kadwell, January 1989: telephone conversation.

[68] Gwen Morgan, "The Government Perspective on Quality," in *Quality in Early Childhood Programs: Four Perspectives* (Ypsilanti, Mich.: High/Scope Educational Research Foundation, 1985), p. 11.

[69] Gnezda and Smith, *Child Care and Early Childhood Education Policy*, p. x.

[70] Ibid., p. 16.

[71] Chapter One of the Education Consolidation and Improvement Act of 1981.

[72] U.S. General Accounting Office, *Work and Welfare*, p. 89.

[73] Sandra L. Hofferth, "The Current Child Care Debate in Context," May 1988. (Revised version of paper presented at the Annual Meeting of the American Sociological Association, Illinois, August 1987), p. 4.

[74] According to Gwen Morgan, unregulated care in and of itself would not be responsible for creating a two-tier system, since middle class parents often use unregulated care. In her opinion, factors more likely to create a two-tier system would be low state payment levels limiting parents' access to quality care and subtle pressures by caseworkers pressuring parents into unregulated care.

[75] Lawrence J. Schweinhart, *The Preschool Challenge* (Ypsilanti, Mich.: High Scope Educational Research Foundation, 1985), p. 16.

[76] Fact Sheet, n.p.: High/Scope Educational Research Foundation, n.d.

[77] Fern Marx and Michelle Seligson, *The Public School Early Childhood Study: The State Survey* (New York: Bank Street College of Education, 1988), pp. 18-21.

[78] Gnezda and Smith, *Child Care and Early Childhood Education Policy*, p. 14.

[79] Ibid., p. 40.

[80] *Report on Preschool Programs* 21, no. 18 (August 30, 1989): 181.

[81] Ruth Hubbell McKey et al., *The Impact of Head Start on Children, Families and Communities: Final Report of the Head Start Evaluation, Synthesis and Utilization Project -- Executive Summary* (Washington, D.C.: CSR, Inc., June 1985), p. 8.

[82] J. R. Reingold and Associates, Inc., *Current Federal Policies and Programs for Youth* (Washington, D.C., August 1989), p. 15.

[83] Don Bolce, Director of Information Services, National Head Start Association, September 1989: telephone conversation.

[84] Ken Snyder, Director of the regional Head Start Office covering Alaska, Idaho, Oregon and Washington, October 1989: telephone conversation.

[85] Toni B. Porter, *Lives on Hold* (New York: Child Care, Inc., October 1988), p. 67.

[86] The Child Care Food Program, which is administered by the U.S. Department of Agriculture, provides funds and commodities to states for meals served to children in child care facilities. The program is authorized under Section 17 of the National School Lunch Act, 42 U.S.C. 1751 et seq.

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